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CASE STUDY: A NEGOTIATION BETWEEN A SHOPPING CENTRE AND A RETAILER

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A Project carried out on the Negotiation Analysis course, under the supervision of:

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Abstract

The main purpose of our project consisted in analyzing a real negotiation between a shopping centre and a retailer, which took place in the Spanish market. Through its analysis and by studying different approaches to a negotiation, we were able to understand negative aspects as well as identify several improvement opportunities. We concluded that having a package-deal approach, where parties attempt to link all variables brought to the discussion, is crucial for the creation of value is this sort of negotiation.

Additionally, we developed a case study to be used on Negotiation analysis courses as a tool to introduce differences between single and multiple-issue negotiations. The case study was also developed in order to understand how the discussion could have been conducted more effectively, leading parties to achieve a mutually beneficial deal.

Key words: Single-issue Logic; Package-deal Approach; Case Study; Negotiations between Shopping centres and Retailers.

Index

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1. Introduction

This project aims to develop a case study, as well as analyze a real case between a shopping centre and a retailer throughout their entire negotiation process. This case is a perfect illustration that, although typically negotiations between the two sides comprise several issues, parties tend to address the negotiation issue by issue, rather than attempt to establish links between all the issues being considered. By analysing the literature on the key factors that determine the final outcome of a negotiation and on the common mistakes made during the bargaining process, we will be able to identify opportunities to make improvements on typical negotiations between the two parties previously mentioned. Objectively, parties need to perceive the negotiation as a means to collectively achieve better outcomes for both. This process implies a transition from a single-issue logic to a package -deal approach, where parties add more variables to the discussion and consider them simultaneously. Besides, in order to identify opportunities for mutual gains, parties ought to make an effort to quantify benefits and costs associated with the different variables, as well as extract information concerning relative preferences for the other side. The goal is to make each one of the players exercise pressure selectively on subjects that are most critical to their own interests.

The main contribution of this paper relies on showing problems associated with approaching a negotiation with a single-issue logic, and disadvantages in approaching a package deal negotiation without establishing links between all the issues being discussed. By contrast, a negotiation with a multiple-issue logic tries to connect all the issues brought to the discussion, in order for them to be addressed jointly.

A second important contribution of this project is to provide a case study to be used in Negotiation courses. Typically in such cases, there are not only general instructions available to both parties, but also confidential instructions to each side. The developed case study is based on a real negotiating situation described later, although for confidentiality reasons names of both players were hidden.

Several sources of information were used in this project. Firstly, I was able to benefit from several conversations with Dra. Constança Casquinho, who works both for Nova and Sonae Sierra, as well as interviews with other executives from this company. More specifically, interviews with Dr. Paulo Gomes, manager of a major shopping centre located in Lisbon, and Dr. Alberto Bravo, director of property management for the Spanish market. Thus, it became easier to understand the shopping industry background, as well as the characteristics of the retailer in question. Furthermore, the elaboration of the case study was also inspired by the case CP France - MegaMarché written by Professor Ingemar Dierickx and used by Professor Luis Almeida Costa in his Negotiation Analysis course. Thirdly, taking as a starting point the readings suggested in that course, a literature review was conducted, concerning which factors lay behind final outcomes in a negotiation, the importance of approaching a negotiation using a package-deal logic, and the most significant barriers to value creation. Finally, for the purpose of extracting information concerning the shopping centre's business, I consulted key websites of private real estate service companies, namely *Cushman & Wakefield*, *Jones Lang LaSalle* as well as the Portuguese Association of Shopping Centres.

This report is organized as follows. We start with a general background on typical negotiations between centres and retailers. After that we present the case study. We then conduct a literature review on different types of approaches to negotiations. Finally, we apply the literature reviewed through the analysis of the case study.

2. Context of the negotiations

Shopping centres' business essentially involves two different participants. On the one hand, the landlord, corresponding to the shopping centre, acquires and invests in the development of a certain space, so as to afterwards rent the totality of the space to several tenants. On the other hand, tenants represented by different retailers, have then the obligation to pay a price in order to pursue their own business inside the shopping mall.

Price is usually divided into three different components: fixed rent which is flat, always dependant on the space owned by each retailer; turnover rent, a predetermined percentage based on sales, and "key money" which stands for an initial lump-sum payment required to start the development of a certain business. Additionally, there are other typical clauses associated with contracts between shopping centres and retailers. Parties negotiate the duration of the contract (around 5 years), break-out clauses, allowing tenants to break the contract at a predetermined period; as well as buy-out clauses, where shopping centres may remove the retailer from the rented space, based on a prearranged lump-sum payment.

Specifically with this type of business, the final outcome of each negotiation is largely determined by the bargaining power of each side. Power is connected with the store's ability to be recognized by consumers, to sell massive quantities of products, to generate foot traffic and more importantly, to rent large spaces in the shopping centres' chain. Thus, most shopping centres will place tenants in one of three distinct categories: anchor tenants, middle-size stores and small shops. Anchor tenants are essential because they are able to attract visitors to the shopping centre, allowing the remaining tenants to benefit. Moreover, usually anchor tenants are internationally well-known brands, which one expects to sell large quantities of products, consequently searching for a greater space within each centre. Middle-sized stores are bigger in number and important brands within each of their activity sectors. Small shops sell lower quantities of products, yet they still represent an important percentage of the overall space. Hence, shopping centres ought to obtain a proper tenant mix regarding store size.

Additionally, shopping centre management teams tend to develop metrics used to estimate the optimal level of enterprises per activity sector. If demand is not expected to keep up with the total supply, usually shopping centres deny access to certain retailers interested in being present at the shopping mall, in order to guarantee the survival of the remaining competitors on that specific industry. To conclude, before any negotiation, shopping malls must consider the right tenant mix both in terms of size and activity sector.

3. Parties involved in the negotiation

The objective of this section is to provide a concise background of both players involved in the negotiation. As previously mentioned, also at this stage, the name of both parties involved is not mentioned. Rather, I will use fictitious names that will help distinguish the different players throughout the entire work project. Therefore, it is worth mentioning the Spanish shopping centre management company and the Italian retailer present in the cosmetic and health-care industry, which is expected to become a major competitor in the sector.

Given the background of both players, one can realize why both of them would benefit from an agreement situation. The International Retailer *Soleto* has been concentrating on an internationalization strategy, after their big success in the Italian market. Their vision is to start being recognized all over Europe in order to compete against giant cosmetic brands like *Pantene*, *Olay*, *The Body Shop*, *Nivea*, *Lancôme* and *Avon* among others. Since 2008, their overall revenue has grown around 70%, having approximately 450 stores all over Europe's biggest cities (Berg J. & Milgrom F., 2012, p.2). The company usually rents big spaces in each shopping centre, of approximately 2000 square foot.

In turn, *Capital Shopping* is one of a vast net of shopping malls belonging to the company *Spain Centres*. It has a very attractive location, on one of the most crowded streets of Madrid. In 2013, after struggling against the Spanish economic situation, the centre had a renewed confidence, since "demand will remain highly selective, with secondary locations struggling to attract occupational and investor interest" (Cushman & Wakefield, 2013, p.1) implying that in order to sell more, retailers must be willing to pay higher rents so as to occupy spaces in major cities of each country. Spain is clearly a country where we can observe the first signs of recovery in terms of consumption, but Barcelona and Madrid are obviously more responsible for that upturn. Therefore, *Soleto*'s internationalization strategy has to be pursued through a constant presence in the biggest cities of Europe and more precisely in critical shopping malls such *Capital Shopping*, capable of generating high levels of foot traffic.

To conclude, given their background and strategic vision for the future, both parties should have overcome their own interests in order to reach a clear mutually beneficial agreement.

4. The Real Case

Before presenting the general and confidential instructions for the case study developed, in this section we present a description of the real situation in which the case study was based. As mentioned, the real case involves a shopping centre management company, which conducts its business in several countries (one of them being Spain) and an international retailer appointed a new brand of health care products, targeting a younger generation. Once again, for confidentiality reasons, the real names of both sides have been hidden.

The story began in 2008, when *Soleto* first moved to *Capital Shopping* agreeing on a 5-year contract. The negotiation had dragged on for a long period of time, as the store was asking for a place on the 1st floor of the Shopping centre. At the time, it was not possible to concede such a request, since all spaces on the 1st floor were taken by other retailers. Nevertheless, *Soleto* realized how crucial it was for their strategy to be present in key centres of the Spanish Capital, and accepted a 2000 square meter space located on the 3rd floor.

Business went as usual, until in 2009 *Soleto's* sales started to drop slightly. At the time, *Soleto* contacted the Centre several times to request help through a reduction in the current fixed rent. The centre, known for its inflexibility when it came to renegotiating such a key variable, immediately refused. In their view, it was not their problem. Furthermore, the centre observed that the majority of other stores' sales were still very good. The retailer argued that specifically for his business, profit margins were very low, and therefore his occupation costs were not comparable with other players of different industries.

In the beginning of 2010, *Soleto* reported an escalation of the situation, and simultaneously the centre observed more stores asking for lower fixed rents. This time, in order to preserve the partnership between both sides not only in Spain but also in other countries, *Capital Shopping* decided to check the current situation of the store. Hence, the centre asked for financial reports that showed the levels of sales falling. *Soleto* immediately denied giving such information on grounds of a breach of confidentiality. The store was reluctant to provide information which could prompt the mall to maintain or even increase rent, because they could view the figures differently. Thus, the centre decided not to grant a reduction in the current fixed rent. During the year of 2010, *Soleto* occasionally kept asking for a reduction in the same variable and as time went by, the store started to accumulate delays in the payments due.

Towards the end of 2011, *Soleto* reported severe liquidity problems, due to last year's lower sales and asked not only for lower levels of rent but also more generous terms of payment. If not, the viability of the store could be jeopardized. Thus, either the centre granted a lower fixed rent, or they would promptly leave the chain of shopping centres belonging to *Spain Centres*. Consequently, *Capital Shopping* decided to hire an external audit company to check the financial health of *Soleto*. The main conclusion was that despite the sales drop, their occupation costs[1] were still very low (around 10%), allowing them to bear the agreed fixed rent. In fact, the audit company felt that cost structure was the critical point which should be better controlled.

Despite such findings, *Capital Shopping* continued to extend deadlines in the rent payment, to help *Soleto* go through this negative period, but without granting the original request. At the end of 2012, delays started to accumulate, being about two to three months overdue at their worst. *Capital Shopping* decided to stop accepting such behaviour. Hence, the mall decided to resort to judicial remedies in order to force *Soleto* to pay the pending monthly rents. The store left *Capital Shopping* in the beginning of 2013.

5. Case Study

I started this project by providing relevant background on factors involved in typical negotiation between centres and retailers, after which I have characterized each side involved in this specific negotiation illustrated with a real case which took place in the Spanish market. In this section, I will provide a case study which was developed to be used in Negotiation courses as a study material for students. The case is essentially divided into two parts: general instructions commonly available for both players, and confidential instructions, including outcomes for each variable considered. Each student will be responsible for the role of negotiator of one of the companies involved. The case is basically a tool used as a starting point to the lectures that oppose single-issue against multiple-issue negotiations, provided on the Negotiation analysis course. Students will then be evaluated based both on their negotiated outcomes as well as their negotiating process. The aim is to give students the opportunity of understanding that different types of negotiations demand different approaches.

[1] Occupation costs reflect the proportion of the fixed rent on the total costs of the store.

As previously mentioned, this negotiation involves the International Retailer *Soleto* and *Capital Shopping*, one of a vast net of shopping malls owned by *Spain Centres*. First of all, we will now present the general instructions, equal for both sides. Afterwards, confidential instructions for *Soleto* and *Capital Shopping* are provided separately.

5.1. General Instructions

This week, international cosmetics retailer *Soleto* and the International Shopping Centre Specialist *Spain Centre*s (SC) will meet to renegotiate the terms of the leasing contract established 5 years ago for a 2000-square-meter space in a shopping centre located in Madrid (Spain).

International Retailer - *Soleto*

Soleto is a leading brand for cosmetics and health-care products (body and face) designed to serve low-to-medium income buyers. It belongs to the group *LIPSIL*, an Italian-based company which in 2008 started spreading their brand all over Europe.

Regarding the Spanish market, over the previous 2 years sales had either stagnated or declined. Until the end of 2010 and despite the beginning of the International crises, the retailer had still enjoyed positive growth rates around 5%, going against the general trend of other industries.

However, the beginning of 2011 saw monthly sales decline by 10 to 20%. There is a clear need to renegotiate new terms for occupation agreements in shopping malls, namely the monthly fixed rent, in order to guarantee sustainability.

Cosmetic Industry

The cosmetic and beauty market is dominated by a small number of powerful companies, which own hugely recognized brands, including *Dove* (Unilever), *Pantene* (Procter & Gamble), *Olay* (Procter & Gamble), *The Body Shop* (L'Oréal), *Nivea* (Beiersdorf AG), *Lancôme* (L'Oréal), *Avon* as well as *Shisheido*.

Regarding the Spanish market, nearly 30% of the total market share belongs to three major groups: Unilever, Procter & Gamble and L'Oréal. *Avon* and *Shisheido* still have a residual presence in the market (3.3% and 2.6% respectively) (Global Insight, 2013-pp.71-92)

Typically, the cosmetic industry relies heavily on the disposable income of households, especially females between 30 and 45 years old. Furthermore, cosmetic goods' sales tend to be higher in times of economic stability, which was not the case in Spain between 2008 and 2012.

Soleto is considered one of the best Italian cosmetic brands, able to compete with well-established groups in the European market. However, the challenge presented by the Spanish context had led the company to accumulate losses for the previous two years.

Economic situation in the Spanish Market

Regarding the Spanish market in general, 2008 is the year where the first symptoms of economic slowdown started to appear, namely higher unemployment rates as well as a slight fall in the level of consumption.

In 2009 there was an escalation of the situation. Entrepreneurs and established companies lacked access to credit due to liquidity problems presented by the financial sector (banks). *Yields* become increasingly higher and the public/ private sector cut investment efforts, causing fear and doubt among consumers. The slowdown in consumption extended not only to luxury goods but also primary goods such as clothing and food sectors. Small traditional stores faced many constraints and world-recognized brands saw their sales growth decline.

Spain Centres

Spain Centres, a Spanish-based company, is one of the largest management companies of shopping centres in the world, present in more than 30 countries, owning around 200 shopping centres around the globe. It is known for its excellent performance in terms of its retailer's sales and flow of visitors, as their centres are usually located near stadiums and also near several offices, characteristics which automatically guarantee constant foot traffic. The *Capital Shopping* located in Madrid is a perfect example of a good strategic location.

Its overall strategy is focused on providing a unique experience for its shoppers, as well as guaranteeing world class facilities to attract the best brands in each sector.

In terms of performance, before the effects of the economic crises started, *Capital Shopping* had a very high occupation rate driven by a constant demand for space, which made practically every shopping mall owned very profitable. By contrast, in 2010 and 2011, occupation rates dropped below 85% as certain stores declared bankruptcy or inability to continue paying the agreed fixed rent.

Shopping centres' market in Spain

Shopping centres' business is particularly complex due to the amount of competition faced. Not only do shopping centres "battle" between each other for higher levels of foot traffic and sales, but competition can be extended to other surfaces such retail parks, outlets and department stores.

Besides *Spain Centres*, there are another 3 major companies whose business is directly related with the management of big retail spaces. The main rival within this business is *Rodamco* owning a portfolio of 16 large shopping centres in Spain, mainly located in the biggest cities (69%).

El Corte Inglés, despite being classified as a department store, has a distinct concept based on selling a large number of brands for several different types of products. The Spanish company has its headquarters in Madrid, possesses shopping centres in 16 different regions of the country.

Immochan (Auchan group) are an international company present in 12 different countries managing hypermarkets, supermarkets and shopping centres. In order to continue its growth strategy, the group is permanently searching for new and innovative concepts for its entire portfolio. Thus, competition is in fact very differentiated and fierce, although the number of players behind the management of shopping malls is low.

Tomorrow's Negotiation

In tomorrow's negotiation, the International Retailer *Soleto* will try to renegotiate the original terms of agreement established five years ago, under the threat of removing its store from the shopping centre's chain. In the past, *Spain Centres* has not shown much flexibility but the store demands a different approach, namely through the inclusion of new negotiation variables. As usual, your job is to achieve the best possible deal.

5.2. Confidential Instructions for *Soleto*

As National Account Manager of *Soleto*, you should try to renegotiate the current fixed rent, as well as review other key issues in tomorrow's negotiation with John Stuart, property manager for *Capital Shopping*.

1. FIXED RENT

The item "fixed rent" represents the price a store needs to pay monthly, in order to sell its products in a given space inside a shopping centre. Normally, the amount of rent paid depends on the space occupied (measured in m^2), but there is also a variable factor affecting the rent charged, which depends on the level of sales made by the retailer.

You would like to revise the current fixed rent. Over the years, sales have been steadily increasing, but the performance of the last couple of years is not allowing *Soleto* to bear that level of fixed costs. Our margins are lower and occupation costs are becoming higher.

It is absolutely essential that you get the other side to accept a reduction in the current fixed rent of 10€/sqm/month starting from January 2013 onwards, which would improve the business long-term prospects.

2. DISCOUNT ON FIXED RENT

There is a discount of 5% on fixed rent when sales drop drastically (below 50.000 €). You consider the current discount on fixed rent to be inappropriate in the present climate. Other shopping centre promoters have recently given higher discounts to help stores go through difficult times. You would like to negotiate increases between 10 to 20% on discounts, which could be beneficial for the stability of the store.

3. TERMS OF PAYMENT

Terms of payment stand for the deadline retailers have in order to pay the agreed values of fixed and variable rent. Currently, *Capital Shopping* is allowing 30 days to fulfil our payment obligations.

Under the uncertainty that surrounds consumption, you would like to increase the terms of payment to 45 days, allowing *Soleto* to pay its suppliers more quickly and have a better control of its working capital needs. The current cost of capital is around 15%, which is considered high.

4. TURNOVER RENT

Turnover rent is usually a variable included in negotiations between retailers and shopping centre promoters. It allows retailers to share a portion of the risk on their own business with the centre, making part of the rent dependent on the level of sales.

John Stuart has already signalled that he wants a percentage of rent based on the store's sales. Our sales have declined 10 to 20% when compared to the same months of last year, and we have no prospects of significant improvement. Our analysts expect growth rates of around only 2%.

5. FITOUTS

Fit-out costs are expenses resulting from setting up the whole retail operation, including the design and architecture of the store, as well as costs incurred from the constant renovation of the shopping centre facilities. These expenses are usually allocated to tenants based on their total space occupied (measured in m2).

To understand *Soleto's* current fit-out costs you asked the other side to give you information about their agreement with the entity responsible for the design and decoration of the stores. Since access to such information has been denied, you want to emphasize that the level of present fit-out costs is too high. You should try to reduce it by 20%.

6. COOPERATIVE ADVERTISING

John Stuart would like to add a new variable to tomorrow's negotiation that he said "can be extremely beneficial for both sides". *Capital Shopping* recently opened a refurbished space on the 3rd floor aimed at providing shopping visitors with a new place to relax, in order to spend more time inside the shopping centre.

A cooperative advertising strategy between stores and the centre, using several channels to promote the initiative, can in fact enhance sales, enabling all stores to be better off in terms of profitability. It requires an initial investment that our researchers believe will result in increases in turnover for the future (not measurable), although, there are stores with limited ability to invest at the moment, such as *Soleto*.

7. LOCATION

Visitors can find *Soleto* on the 3rd floor, located in the east corner of the building. Although it cannot be empirically proven, a good location can influence the level of sales, since foot traffic is not the same across the entire shopping centre. Due to this, it would be beneficial to move to a lower floor, where we can have more international retailers of diversified sectors as our neighbours. However, *Capital Shopping* may request higher levels of fixed rent or may say it will be impossible to concede a new space, because almost all big surfaces on lower floors are already occupied.

8. MALL SPACE

A "mall space" constitutes a small stall in front of *Soleto's* store, for the purpose of inducing visitors to enter the store where it would place its newest winter collection of cosmetics products, allowing potential customers to try them for free, or possibly to take away some free samples with them.

There are shopping centres which, as a rule, do not allow the existence of outside stalls because it causes congestion within the corridors of the shopping malls. Our analysts estimate a "mall space" could increase sales by 5.000€, and thus it would be extremely important for the store to have permission to set one up.

Exhibit I (Summary of Benefits/Costs[2])

Issue	Benefit (Cost) International Retailer
1. Fixed Rent	
- 4€/sqm/month	8.000
- 2€/sqm/month	4.000
No Change	0
+2€/sqm/month	(4.000)
2. Discount on Fixed Rent	
-10%	(2000)
No change	0
+10%	2.000
+20%	3.000
3. Turnover Rent	
None	0
2%	(1.000)
4%	(2.000)
6%	(4.000)
4. Terms of Payment	
15 days	(3.500)
30 days	0
45 days	3.500
5. Fitouts	
-20%	2.000
-10%	1.000
No change	0
+10%	(1.000)
6. Cooperative Advertising	
None	0
2.500	(2.500)
5.000	(5.000)
7.500	Not Authorized
7. Location	
1st Floor	3000
2nd Floor	1000
3rd Floor (No change)	0
8. Mall Space	
Mall Space is accepted? No__	0
Yes__	5.000
Listing Fee:	____

[2] Exhibits have discrete rather than continuous values. Discrete values allow participants to easily negotiate all the variables included, reduce the negotiation time, and help participants to quickly understand advantages of a package deal negotiation.

5.3. Confidential Instructions for *Capital Shopping*

As property manager for *Capital Shopping* (CS), you are reviewing key issues in tomorrow's negotiation as well as other new issues that may facilitate an agreement with Thomas Stevenson, National Account Manager of *Soleto*.

1. FIXED RENT

The item "fixed rent" represents the price a store needs to pay monthly, in order to sell its products in a given space inside a shopping centre. Normally, rent is paid according to the occupied space (measured in m^2). As well as this fixed cost, total rent includes a variable element dependent upon the retailer's level of sales.

The other side, when mentioning problems in their sales results, always denied access to their financial statements, arguing the need for confidentiality. Therefore, CS hired an external entity to evaluate the financial situation of the store and determine whether we should agree upon a lower fixed rent for the future, as Thomas Stevenson requested. Throughout this evaluation it was possible to conclude that sales were indeed decreasing, but there was room for improvement by implementing a higher cost control strategy and an optimized management of inventory.

However, the other side was very clear about the importance of lowering the value of this variable, and failure to do so may prompt it to remove its stores from our chain of centres. The market price for a space of 2000 sqm is around 10€/sqm/month.

2. DISCOUNT ON FIXED RENT

It is common in situations where stores reach a certain level of sales, to grant discounts of around 5% on fixed rent for a short-term period. Thomas Stevenson is suggesting a higher discount alleging "the situation has never been so alarming". There is however, a problem associated with such a request. If you decide to give a higher discount, other stores may ask for the same special treatment, which will have an impact on next year's financial performance.

3. TERMS OF PAYMENT

Terms of payment stand for the deadline retailers have to pay the agreed values of fixed and variable rent. Currently, *Capital Shopping* is conceding 30 days to fulfil our payment obligations.

The International retailer already manifested the need for more generous terms, arguing that other shopping promoters have made such concessions recently. The cost of capital is around 9%. However, terms of payment are monitored carefully by *Spain Centres*.

4. TURNOVER RENT

Turnover rent is usually a variable included in negotiations between retailers and shopping centre promoters. It allows retailers to share a portion of the risk on their own business with the centre, making part of the rent dependent on the level of sales.

In order to help the retailer proceed with his activity you may consider including a percentage of the rent that depends on their sales. *Capital Shopping* has hired a specialized company to audit and analyse the current financial state of the business. Based on the information gathered, the company believes the new stylish winter collection will improve sales, surpassing the values obtained in 2008 of approximately 250.000€. You would like to obtain 4% or perhaps 6% of the total turnover.

5. FITOUTS

Fit-out costs are expenses resulting from setting up the whole retail operation, including the design and architecture of the store, as well as costs incurred from the constant renovation of the shopping centre facilities. These expenses are usually allocated to tenants based on their total space occupied (measured in m2).

Thomas Stevenson has already maintained that fit-out costs are too high in the face of restrictions placed by the landlord on the store design. We have already engaged in negotiations to discuss the price paid for fit-out reimbursements to our partner company responsible for them. It is our company policy to retain a percentage of these costs on a monthly basis to continuously improve the shopping centre infrastructures.

6. COOPERATIVE ADVERTISING

In light of the investment made in a refurbished space on the 3rd floor, our marketing director suggested an advertising campaign to enhance foot traffic in that area. It will consist of producing flyers with special offers addressed to a large number of households, as well as placing advertising panels near strategic entrances of the shopping centre mentioning the advantages of the initiative. He quoted different prices depending on the desired impact of the campaign. We believe that the effect of the campaign will be to generate more foot traffic for the shopping mall and consequently more sales for *Soleto* and their competitors. Since our negotiation strategy is focused on increasing the number of stores that pay their rent based on sales, we estimate profits of between 5.000€ and 15.000€. However, the other side may be reluctant to invest in advertising due to lack of immediate liquidity.

7. LOCATION

Soleto has been located in a 3rd floor space since it moved to *Capital Shopping* 5 years ago. Its management team is now requesting a transfer to a lower floor so as to boost its sales performance, taking advantage of higher foot traffic. Currently, on the 2nd floor *Capital Shopping* possesses three available spaces, but all of them are bigger than the one occupied by the retailer at the moment, which would automatically imply a higher fixed rent (+2€/sqm/month). However, there will be a rent-free period while the change takes place, representing a cost for the centre.

When it comes to the 1st floor, occupation rate is at 100% which would oblige the centre to activate a break-out clause and pay a "premium" to one tenant (same size of space as *Soleto*) of around 5.000€. Furthermore, experience has shown you that location is not a key factor affecting revenue, but things such a good management of costs and inventory are of greater importance.

8. MALL SPACE

Thomas Stevenson has already made it known that the store intends to place a small stall in front of *Soleto*, for the purpose of inducing visitors to enter the store, where it would place their newest winter collection of cosmetics products, allowing potential customers to try them for free.

As far as *Capital Shopping* is concerned, there is not a strict rule prohibiting outside stalls in the middle of the corridors, although the centre tries to avoid large concentration of these within the same area. In the past, the few times permission was granted, this initiative has proved successful not only to the store which promotes its products but also to "neighbour" stores. Shoppers appreciate the special treatment coming from "mall spaces". Therefore, higher sales are expected for *Soleto* as well as for other tenants situated in that corridor. The area itself would become more dynamic and busy as compared to what it was in the past, enabling other stores to fill in the unoccupied spaces at the 3rd floor. Occupation rates would become higher generating around 2.500€ in new rents. Further, allowing *Soleto* a Mall Space may make it agree to stay on the 3rd floor.

Exhibit II (Summary of Benefits/Costs[3])

Issue	Benefit (Cost) Shopping Centre
1. Fixed Rent	
- 4€/sqm/month	(8.000)
- 2€/sqm/month	(4.000)
No Change	0
+2€/sqm/month	4.000
2. Discount on Fixed Rent	
-10%	2000
No change	0
+10%	(4.000)
+20%	(6.000)
3. Turnover Rent	
None	0
2%	2.000
4%	4.000
6%	8.000
4. Terms of Payment	
15 days	1.500
30 days	0
45 days	(1500)
5. Fitouts	
-20%	(2.000)
-10%	(1.000)
No change	0
+10%	1.000
6. Cooperative Advertising	
None	0
2.500	5.000
5.000	10.000
7.500	15.000
7. Location	
1st Floor	(5000)
2nd Floor	(1500)
3rd Floor (No change)	0
8. Mall Space	
Mall Space is accepted? No__	0
Yes__	2.500
Listing Fee:	____

[3] Exhibits have discrete rather than continuous values. Discrete values allow participants to easily negotiate all the variables included, reduce the negotiation time, and help participants to quickly understand advantages of a package deal negotiation.

6. Literature Review and Analysis

In this section, we provide a literature review focused on actions that have an impact on negotiations, as well as an application of the literature to the analysis of the present case. Objectively, the aim is to provide an analysis concerning the real case, highlighting its positive and negative aspects.

Over the years, many authors, researchers and professors in the field of negotiation have presented different approaches concerning the negotiation process, attempting to explain what aspects and strategies lead to certain outcomes, as well as what aspects hinder the creation of value. There are two main types of negotiations which are important to counter: single-issue negotiations associated with a distributive effect "in which a better bargain for one means less for the other" (Schelling, 1960a-p.21), and package deals (also referred as multiple-issue negotiations) with distributive but also integrative effects, "a process by which parties attempt to explore options to increase the size of the joint gain" (Walton and McKersie, 1965-p.13) but where parties also attempt to get the best possible deal for themselves.

6.1. What determines the Final Outcome?

Final outcome, driven by the entire bargaining process, is usually the most important aspect considered when evaluating the success of a negotiation after it is concluded. Normally, the way parties, by themselves, decide to approach the negotiation will lead to different possible outcomes. For a long time, there were two contrary perspectives concerning which critical factors determine final outcomes.

First, according to Thomas Schelling (1960a, 1960b) what determines the final result of a negotiation is a process of convergence of expectations. The author suggests that "for an ultimate agreement, some coordination of the participants' expectations" is crucial (Schelling, 1960b-p.70), and only through their convergence do we arrive at a possible deal. It is a point where neither expects the other to retreat, implying a strong commitment from both sides. In turn, there are four key factors that influence the point where expectations converge. First, parties "must mutually recognize some unique signal that coordinates their expectations of each other" (Schelling, 1960b-p.54) in order to reach an agreement. Basically, "people can often concert their intentions or expectations with others if each knows that the other is trying to do the same" (Schelling, 1960b-p.57) and so "among all available options, some particular one usually seems to be the focal point for coordinated choice" (Schelling, 1960b-p.60). Focal points are, in fact, obvious outcomes driven by the characteristics of the negotiation itself, where parties ultimately expect to arrive (Dierickx, 2008-p.14).

Second, it is interesting to observe "that the power to constrain an adversary may depend on the power to bind oneself; that, in bargaining, weakness is often strength" (Schelling, 1960a-p.22). Hence, another tool which can increase value on a negotiation is the tactics of credible commitments, where negotiators credibly convince the other side that for some reason they are not capable of making concessions.

Third, "negotiated outcomes are to a large extent conditioned by what each party knows about the other" (Dierickx, 2008-p.14). There is usually an imbalance of information between negotiating parties, leading those with more information to achieve higher outcomes.

Fourth, "the more outrageous the initial proposition, the better is the prospect that what one really wants will be considered a compromise" (Kissinger, 1961–p.205). Basically, there are a number of actions that allow negotiators to influence their "counterpart's beliefs" about their own limits (Dierickx, 2008-p.15). Such strategies are called signalling strategies because they allow one side to signal their own reservation price to the other side. Nowadays, Thomas Schelling's perspective is dominant in negotiations.

Another perspective proposed by Fisher and Ury (1991) introduces the concept of principled argumentation. According to these authors, the outcome in a negotiation is largely determined by principles and arguments. To begin with, parties in a negotiation should start by agreeing on an overall set of principles, as Fisher and Ury (1991) suggest when they state that "before even considering possible terms, you may want to agree on the standard or standards to apply" (Fisher and Ury, 1991-p.46). Principles aim to promote fairness and equality to the debate, before the discussion of details. In fact, "if the substance can be phrased or conceptualized differently so that it seems a fair outcome, they will then accept it" (Fisher and Ury, 1991-p.19). Subsequently, parties should use arguments to work out the implementation details. Fisher and Ury state that words and detailed arguments are relevant in order to convince the other side of a certain point of view, while detailed numbers and figures do not play a crucial role in the final agreement. These authors compare the need for detailed arguments made by negotiators, with circumstances where a "judge writes an opinion on a court ruling (…) instead of just telling one party, "you win," and telling the other, "you lose," he explains how his decision is consistent with principle, law, and precedent. He wants to appear not as arbitrary, but as behaving in a proper fashion. A negotiator is no different" (Fisher and Ury, 1991-p.18). Thus, the authors believe that "convincing the other side that you are asking for no more than is fair is one of the most powerful arguments you can make" (Fisher and Ury, 1991-p.88).

Fisher and Ury's perspective has recently been criticized for two main reasons. First, the use of principles tries to bring, initially, the sense of fairness and equality to the debate, but regardless of their importance, such principles are very subjective and will probably be moulded by each party's needs. Second, the use of arguments and words are typically not effective in negotiations, simply because the other side does not want to be convinced. Instead, it will lead to excessive argumentation, leaving parties irritated and more reluctant to agree on concessions. Moreover, negotiators can run the risk of giving away crucial information. In short, one might say that "words are cheap and money talks" (Goldwich, 2010-p.87).

6.2. Single-Issue Logic vs Package-Deal Approach

As mentioned previously, single-issue negotiations lead to a situation where for one side to win, the other has to lose. Hence, the negotiation process tends to become difficult. By contrast, when negotiations are regarded with a multiple-issue logic, there is an integrative dimension that allows both parties to benefit, making the negotiation process potentially less complex. Therefore, to create value there are essentially four actions that ought to be pursued by both players.

To begin with, Fisher and Ury emphasize the importance of creating an agenda as a first draft for the negotiation (Fisher and Ury, 1991-pp.42-45). In fact, "working on a draft helps to keep discussions focused, tends to surface important issues that might otherwise be overlooked, and gives a sense of progress" (Fisher and Ury, 1991-pp.82-83). In parallel, "skilful negotiators will instinctively try to introduce additional issues in order to craft a complex package deal, both to create more value and to veil the distributive dimension of bargaining" (Dierickx, 2008-p.1). Thus, it is crucial to create agendas with multiple issues.

Secondly, if parties "share preference information, we might expect that they would achieve a mutually beneficial agreement more easily than if they do not" (Babcock, Murnighan, Thompson and Pillutla, 1999-p.314). Therefore, each side must make an effort to extract information about preferences of the other side, so parties can search for differences. Hence, "a great deal of value can be created if both sides systematically exploit their differences" (Raiffa, 2002-p.201).

Thirdly, even before the negotiation starts, each side must make an effort in terms of quantifying benefits and costs for each variable considered. James Sebenius and David A. (1986) believe that "negotiators benefit by being self-conscious and reflective about their interests and the tradeoffs they are willing to make" (Sebenius and Lax, 1986-p.74). Thus, the attempt to be as accurate as possible, regarding the impacts of each issue, can indeed generate more value and allow negotiators to make better decisions.

Fourthly, Howard Raiffa (1982) recommends that parties should generate "scoring systems that assign points to various levels within each attribute and quantify tradeoffs between issues" (Raiffa, 1982-p.148). In fact, what the author stresses is the importance of establishing links between issues and the identification of tradeoffs by exploring complementarities and synergies on the overall set of subjects. As previously mentioned, it is important to add numerous issues to the discussion, making it into a package deal. However, what is crucial is to exert pressure selectively on issues that most matter, instead of going issue by issue exerting maximum pressure in each one. With the latter, outcomes of the bargaining process are likely to be more similar to a single-issue negotiation, making the creation of value harder.

Concerning the real case narrative, a few key actions previously pointed were not taken into account by the shopping centre and the retailer. In standard negotiations between these two parties, it is common practice for several issues to be discussed. Nevertheless, *Soleto* and *Capital Shopping* exercised maximum pressure on a single-issue, the fixed rent. Thus, adding issues must be perceived as a tool to create value. Discount on fixed rent, turnover rent and store location are all variables that allow parties to move away from negotiating one issue, where it is harder to reach a consensus.

In addition, during the negotiation, both sides were reluctant to concede any information about possible benefits or losses. Elizabeth Howard states that "an additional impediment to managing retail mix in a centre is lack of information" (Howard, 1997-p.272). The store *Soleto* denied access to financial information that would show their results getting worse. In turn, *Capital Shopping* decided not to allow tenants to check costs associated with the refurbishment and renovation of the centre. Thus, if parties do not make it easy to share their preferences with the other side "reaching an agreement is likely to be more difficult and less likely, as is achieving the maximum joint gain" (Babcock, Murnighan, Thompson and Pillutla, 1999, p.314).

Also, having agendas with multiple issues does not necessarily imply that parties will join forces to seek bigger outcomes. Sometimes, even with package deals, negotiators tend to go issue by issue, exercising maximum pressure with the aim of generating huge outcomes for themselves. Obviously, such actions often lead to failed agreements. In the case study developed for academic purposes the main goal is to let the students realize the importance of exercising pressure selectively, taking into consideration tradeoffs present in both exhibits. For example, a student negotiating in behalf of *Soleto* should convince the other side to provide lower fixed rents, and more favourable terms of payment. Nevertheless, in order to reach that goal, the student will probably need to concede funds to help the centre promote the renovated 3rd floor space and agree to maintain their place inside the shopping centre.

6.3. Barriers to Value Creation

There are a number of typical mistakes that negotiators make and which makes value creation difficult. In a highly influential article, James Sebeniues (2001) highlights six mistakes which tend to destroy value instead of solving the problem at hand. I will select four mistakes, which are intimately linked with the real case narrative, in order to relate them with the negotiation between *Capital Shopping* and *Soleto*.

To begin with, both parties usually neglect the other side's problem. "Tough negotiators sometimes see the other side's concerns but dismiss them" (Sebenius, 2001-p.88) mainly because helping them can imply less value for the other side. Nevertheless, sometimes agreements and partnerships can only last if we view the other side's problem as exactly our own.

Taking the present case into consideration, *Capital Shopping* in 2008, disregarded the retailer's situation. Seeing that demand for space was higher than total supply, it was believed *Soleto* could be easily replaced by another brand in the same sector. However, a 2000 square meter space was tougher to rent than expected, as the Spanish economic situation started to deteriorate. Only afterwards did *Capital Shopping* searched for ways to help the retailer by asking to review their financial reports. If in 2008 both sides had engaged in finding a proper solution to anticipate a sales decline, the problem could have been solved faster and more easily.

Second, "negotiators who pay attention exclusively to price turn potentially cooperative deals into adversarial ones" (Sebenius, 2001-pp.89-90). In such cases, negotiators should be more creative, namely through the introduction of other variables to the process instead of letting self-interest control the final outcome. "Negotiators who have a strong need to assert themselves are often seen as difficult opponents" (Sebenius, 2001-p.92) and this more often leads to a no-deal negotiation.

Hence, in 2008 and later in 2010, *Soleto* requested a lower monthly fixed rent so as to avoid consecutive annual losses. The rent required to operate within *Capital Shopping* was too high for the level of sales observed. The Shopping management company immediately denied the request, maintaining a strict policy in terms of price. Usually, the trigger to an escalation of conflicts between parties is the pursuit of extreme positions over a specific issue being discussed. On the contrary, *Capital Shopping* ought to have searched for other variables which could have been beneficial for them. Present in the developed case study there are seven other variables with different outcomes for each side. For example, it would be interesting to consider increasing the share of rent dependent on revenues, as parties possess different expectations regarding the store's future. Furthermore, *Soleto* could be interested in helping promote a new refurbished space on the 3rd floor in exchange for a lower monthly rent. Even variables which cannot be accurately quantifiable could generate more foot traffic, allowing granting the request without the loss of value.

Moreover, the author observes that typically negotiators are "advised to find win-win agreements by searching for common ground" (Sebenius, 2001-pp.91-92), which is generally beneficial for both. However, usually there are differences among parties' views on similar issues. For instance, one variable may be more important for one side and not so much for the other and vice-versa. It is interesting to realize that these differences are potentially the source of joint gains, because concessions can be made selectively on issues that mainly benefit others but do not cost the other party so much to concede (Mouzas, 2006-pp. 279-301).

When Shopping centres and retailers decide to negotiate, there will not be many variables simultaneously beneficial for both sides. In fact, positive outcomes for one player imply negative results for the other, as is the case with fixed rent. Nevertheless, these impacts are usually not symmetrical, meaning that some variables will have bigger effects for one side. These differences in profit or loss enable switching concessions, within the set of all selected variables. If we match exhibits for both parties of the case study, one can realize that differences in expectations/outcomes are indeed the source of joint gains.

Additionally, there is a common mistake of neglecting BATNAs (best alternative to a negotiated agreement). In fact, a BATNA "may involve walking away, prolonging a statement, approaching another potential buyer (…), going to court rather than settling, forming a different alliance, going on strike" (Sebenius, 2001-p. 93). All these examples constitute meaningful alternatives that should be constantly taken into account. All negotiators should bear in mind "what-if" scenarios.

As previously mentioned, given the background of both players, each would undoubtedly benefit from an agreement situation. Concerning *Capital Shopping*, the consequences of a negotiation without an agreement could basically imply having a 2000 square meter space without a tenant for a certain period of time, as well as the loss of an important player to the shopping's portfolio in the cosmetic industry, given *Soleto's* potential. On the other hand, should parties fail to reach any deal, *Soleto* instead of spreading their image and continuously expanding its brand all over Spain, is losing a major source of revenue, as well as a place on one of the most famous shopping centres in Madrid. Hence, I can only conclude that both neglect the inexistence of plausible BATNAs.

7. Conclusion

The present work project aims to illustrate that multiple-issue negotiations should be conducted more effectively if parties want to claim value for themselves. Specifically, parties must make an effort to quantify tradeoffs, get information concerning the other side's preferences and above all, exercise pressure selectively on issues that possess bigger outcomes. By contrast, exercising maximum pressure on all issues considered, one by one, without attempting to establish connections between issues, will often be doomed to failure. Nowadays, it is crucial for centres and stores' success to understand the mechanisms of a package deal negotiation. Hence, I have identified a set of problems that are typical in negotiations between these two parties. Additionally, suggestions that allow shopping centres to enhance their relation with retailers were presented, which I believe that can create more value for both sides.

Further, a case study has been provided to be used by students in Negotiation courses. Through the example given by the discussion described in the case study, it is expected that students during their negotiations, understand the importance of claiming value not only for themselves, but also for the other person present in the negotiation. Thus, I am able to provide another comprehensive case study in standard negotiations between shopping centres and retailers, for academic purposes.

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